

## Majedie Asset Management

### Feedback to the SEC on climate change-related information

1. **How can the Commission best regulate, monitor, review, and guide climate change disclosures in order to provide more consistent, comparable, and reliable information for investors while also providing greater clarity to registrants as to what is expected of them? Where and how should such disclosures be provided? Should any such disclosures be included in annual reports, other periodic filings, or otherwise be furnished?**
- Make climate related disclosures mandatory in the 10K report, starting in January 2022. We feel that an annual report should be sufficient, as emissions and other related information will not change considerably on a quarterly basis.
  - Require that companies produce information on their carbon emissions, GHG emissions, carbon intensity, along with any other information that is related to their business and operations impacted by global warming. It would be helpful if the information is broadened to include other metrics such as freshwater usage, waste, recycling and other metrics related to climate change disclosures, as well.
  - This information should be:
    - Reported in a separate section of the 10K and (quarterly) reports and also be linked to group strategy and pay. Details in this report should include:
      - a group's total carbon emissions and GHG emissions over the period
      - how these numbers have changed year on year and why – the historical data should be reported for as far back as possible
      - an historical display of a group's targets over time relating to carbon emissions reductions
      - a group's carbon intensity figure (using a standardised measurement)
      - any other information relating to the impacts of global warming on a company's business and operations, domestic and international
      - a company's net zero target, if available, along with how the group plans to achieve the target
      - outline of medium-term strategic targets related to carbon and GHG emissions and how the group plans to achieve these (companies should report on whether they achieve the targets and goalposts)
      - what internal carbon price the company is using for capital allocation decisions, or if they don't use an internal carbon price why not.
      - whether the group has adopted a 2 degree/1.5 degree target setting to reduce emissions
      - whether the group will use offsetting as a means of achieving part (or all) of its net zero target
      - Whether the company supports the Science Based Targets Initiative
      - all information relating to a group's climate change approach as detailed under TCFD requirements
    - A group's climate-related risks and opportunities should be reported in the context of all the material risks and opportunities that a group is facing over the short, medium, and longer term. This should be illustrated by using a materiality assessment or heat map or other, similar information.
    - This information should also be published on a company's website.

2. What information related to climate risks can be quantified and measured? How are markets currently using quantified information? Are there specific metrics on which all registrants should report (such as, for example, scopes 1, 2, and 3 greenhouse gas emissions, and greenhouse gas reduction goals)? What quantified and measured information or metrics should be disclosed because it may be material to an investment or voting decision? Should disclosures be tiered or scaled based on the size and/or type of registrant)? If so, how? Should disclosures be phased in over time? If so, how? How are markets evaluating and pricing externalities of contributions to climate change? Do climate change related impacts affect the cost of capital, and if so, how and in what ways? How have registrants or investors analyzed risks and costs associated with climate change? What are registrants doing internally to evaluate or project climate scenarios, and what information from or about such internal evaluations should be disclosed to investors to inform investment and voting decisions? How does the absence or presence of robust carbon markets impact firms' analysis of the risks and costs associated with climate change?
- Every company has some information that can be quantified and measured with regard to global warming. These should be reported on and include:
    - Total carbon and/or GHG emissions (scope 1, 2, and 3)
    - Carbon intensity of a group's products and services
    - Water usage
    - Waste to landfill (weight/percentage)
    - Recycling/ recycled components (weight/percentage)
    - Sourcing of renewable energy (by amount and type)
  - We believe that it would be reasonable to phase in climate related reporting over time, starting with making reporting along TCFD guidelines and basic carbon and GHG reporting required from January 2022.
  - Not all issues have equal materiality to the underlying company. That is to say, each company has its own, unique materiality matrix or map which illustrates the likelihood and impact of a broad range of **risks and opportunities** that a company faces (over the short, medium and longer term). This assessment should include all risks and opportunities, regardless of how these risks and opportunities are sub-divided (sub-divisions can include labels such as into operational, balance sheet, environmental, social, governance, internal, external, etc.)
  - Ideally, companies will report on their climate change-related data (a list of data points should be stipulated). The **specific risks and/or opportunities** that a company faces with regard to global warming should also be put in the context of a group's overall materiality matrix, so that investors may understand better the likelihood and impact of these issues. For example, a group can report on its total carbon or GHG emissions as a data point. But one of the specific risks it may face regarding global warming could be a physical risk of rising flood waters around a group's manufacturing facilities in Thailand. Or it could be that a group is facing the specific transition risk of transitioning from being a major fossil fuel producer to being a provider of primarily green energy. These are the kinds of specific risks / opportunities that we would expect to see detailed on a materiality matrix and then explained in terms of how the group is managing these issues.
  - Climate change-related risks and opportunities, just like other issues, may affect a company's cost of capital. These could be internal or external risks / opportunities to the company, itself. For example, if investors decide en masse that an integrated oil company's products and services are largely undesirable due to their emissions, they may choose not to hold these companies, regardless of whether the company is managing its

climate related issues well or not. This divestment or refusal to invest could lead to the group having a lower share price which could negatively impact a group's borrowing costs, its ability to return cash to shareholders and to issue debt.

- If investors don't have access to information on a company's specific exposures related to global warming, its data on total carbon / GHG emissions, carbon / GHG intensity, the group's carbon / GHG reduction targets and methodologies, then investors are left to guess or make assumptions about where companies are and where they are heading. That can lead to incorrect judgements, which in turn, can lead to poor investment decisions that may hurt our clients / a wider group of investors.

**3. What are the advantages and disadvantages of permitting investors, registrants, and other industry participants to develop disclosure standards mutually agreed by them? Should those standards satisfy minimum disclosure requirements established by the Commission? How should such a system work? What minimum disclosure requirements should the Commission establish if it were to allow industry-led disclosure standards? What level of granularity should be used to define industries (e.g., two-digit SIC, four-digit SIC, etc.)?**

- While there is potential downside whenever a box ticking methodology is used to assess an asset, there is value, especially at the beginning, of having a formalised, structured way for companies to report on their key data and management of climate change-related issues. Investors are largely looking for the same types of information from companies; for this reason, it would be helpful (at the start of the journey) for investors and registrants to work together to agree on what companies need to report on.
- The reporting does not need to be overly onerous. But it does need to follow TCFD reporting for how a company is managing its global warming-related issues and how, if at all, these targets and goals are linked to group strategy and pay. Minimum disclosures are also needed and could be required by the Commission on key data, which could be agreed on by market participants.
- Transparency is a journey and levels of (required) transparency will increase over time. At the start, companies should be required to report on a basic set of key data points agreed by market participants (absolute carbon emissions, for example). But the pressures and demands of climate change will change quickly, meaning that investors will need a continually improving level of transparency from companies if investors are to believe that the companies represent solid, longer term investments.

**4. What are the advantages and disadvantages of establishing different climate change reporting standards for different industries, such as the financial sector, oil and gas, transportation, etc.? How should any such industry-focused standards be developed and implemented?**

Generally, we would support companies in the same industry working together to develop disclosure metrics that make sense for their activities (such as carbon per passenger kilometre for airlines, or carbon per container km for shippers, or carbon per occupied room night for hotels) in the same way that miners have done for unit cost and safety disclosures. It would make it easier for investors to compare companies in the same sector.

- The advantages to having sector climate change reporting standards include:
  - That there would be more US GAAP like comparison between sector participants, so that more like-for-like comparisons can be made with regard to the level of carbon / GHG emissions companies currently release (and other key data points), what their goals are for managing this area of their business and the extent to

which a company links the management of its global warming risks / opportunities to group strategy and pay.

- If market participants could agree on the measurements to use (and the basis on which to measure) carbon / GHG emissions (scope 1, 2 and 3) then there could be greater comparison between companies. Currently, there is still too much differentiation between measurements to have comparative studies.
  - That sector participants would all face the same requirements, lending credibility to the system and the motivations for requiring the information. (All oil companies, for example, would “be in the same boat” with regards to reporting.)
  - That companies might be motivated to act more quickly on their carbon / GHG emissions if they can see their own performance compared directly to others in their sector.
- The disadvantages include:
    - Some sectors may have more onerous reporting than others, simply because their involvement with carbon / GHG emissions or if the carbon / GHG intensity of their products is higher. This could lead to complaints that sectors are treated unfairly by virtue of their proximity / relationship with carbon / GHG.
    - Scope 3 emissions data may still be extremely difficult to measure for some sectors, where investors feel that they need it for full disclosure.
    - Key data points might be more difficult to agree on for some sectors than for others. Market participants would need to work together.
    - There could be considerable disagreement in what key data points or measurements to use in industry / sector-focused reporting.
    - Box ticking could dominate, leading investors to believe that companies have the same exposures to the same risks / opportunities related to climate change, and that the data has the same meaning for each company, simply because it is being reported. We would advocate that when reporting on key data and along TCFD guidelines, that companies also provide a heat map or materiality matrix in which they contextualise their climate change related risks and opportunities for which they are providing additional data points.
    - Some subsectors may have too much heterogeneity to make comparisons helpful. For example, while it is relatively easy to compare oil, or airlines, arguably transport is much harder to compare, due to the fact that many transport companies are conglomerates (Fedex or Maersk, for example) and because sector constituents have very different businesses (some are asset light while others are asset heavy). That isn’t to say that comparison shouldn’t be attempted but there must be an effort to make disclosures insightful.

**5. What are the advantages and disadvantages of rules that incorporate or draw on existing frameworks, such as, for example, those developed by the Task Force on Climate-Related Financial Disclosures (TCFD), the Sustainability Accounting Standards Board (SASB), and the Climate Disclosure Standards Board (CDSB)? Are there any specific frameworks that the Commission should consider? If so, which frameworks and why?**

- We find value in TCFD as a means of reporting on the issue that each company faces regarding risks / opportunities related to global warming. The TCFD guidelines are a template for issue management and we appreciate the standard way TCFD provides in which companies report on managing this issue.

- SASB's framework is also a helpful way for companies (that don't know how or refuse to undertake materiality assessment on their business) to report along a standard framework on areas of their business that may be material. However, SASB's framework is a box ticking session that helpfully gives companies a list of items to report against, but does not ask companies to then contextualise the exposure that they have to a particular risk / opportunity / data point. This means that there is still some guesswork on the part of the investor as to the degree to which a company is exposed to any particular (and potentially material) area. With this framework, we would strongly suggest that companies provide a heat map or materiality matrix alongside their data points, so that investors have a better idea of how material each data point / issue / area is to the underlying business of the company reporting.

**6. How should any disclosure requirements be updated, improved, augmented, or otherwise changed over time? Should the Commission itself carry out these tasks, or should it adopt or identify criteria for identifying other organization(s) to do so? If the latter, what organization(s) should be responsible for doing so, and what role should the Commission play in governance or funding? Should the Commission designate a climate or ESG disclosure standard setter? If so, what should the characteristics of such a standard setter be? Is there an existing climate disclosure standard setter that the Commission should consider?**

- We would recommend that a basic outline of required data points and explanations be required by US listed companies in the beginning. This required list could evolve as investors' requirements evolve. A special commission or department could be appointed to oversee, determine and enforce these requirements. Any specially appointed commission or department could report into the SEC directly or serve in more of an advisory role, recommending to the SEC what should be required in terms of reporting. Any special body / department / commission should include individuals who have experience / credentials regarding climate change and who also have experience relating to public company reporting. There are many bodies with climate disclosure recommendations / guidelines; the department / commissions overseeing the reporting disclosures could borrow from some of these, realising that TCFD is probably the only one that deals exclusively with climate change.
- We would argue that if a guideline or template like TCFD is used that companies must also report on their other risks and opportunities (across the spectrum of their business / operations) so that investors understand the degree of exposure that each company has to the issues that it reports on relating to climate change. These issues must be put into the context of a company's wider operations.
- It would also be helpful if the SEC had a special committee to oversee trade bodies' work to develop standards for ESG / sustainability and related reporting

**7. What is the best approach for requiring climate-related disclosures? For example, should any such disclosures be incorporated into existing rules such as Regulation S-K or Regulation S-X, or should a new regulation devoted entirely to climate risks, opportunities, and impacts be promulgated? Should any such disclosures be filed with or furnished to the Commission?**

- We would recommend that a new rule be formed entirely for reporting on climate change / global warming. This is because reporting on this topic will evolve tremendously over time. Giving climate change its own section in the regulations will make it easier to adapt the requirements over time.

- All reporting on climate change should be included in the 10K filing. (Data on these exposures do not change enough to warrant a more frequent update. More frequent measuring is also much more onerous for companies just now. (It may become necessary for companies to report on a quarterly basis, if, in a decade or so, companies are not making enough progress to attain net zero).

**8. How, if at all, should registrants disclose their internal governance and oversight of climate-related issues? For example, what are the advantages and disadvantages of requiring disclosure concerning the connection between executive or employee compensation and climate change risks and impacts?**

- It is absolutely critical that any reporting regarding a group's risks and opportunities relating to climate change (and the management of these issues) is linked **directly to group strategy and executive pay**. These links must also be disclosed. These are the only real tools that will ensure that companies reduce their carbon / GHG footprints.
- The only disadvantage is that companies will have to seriously consider the targets / goals that they set and ensure that the percentage of compensation (10% of LTIP, for example) is appropriate to the level of exposure the group has to climate change risks and opportunities.

**9. What are the advantages and disadvantages of developing a single set of global standards applicable to companies around the world, including registrants under the Commission's rules, versus multiple standard setters and standards? If there were to be a single standard setter and set of standards, which one should it be? What are the advantages and disadvantages of establishing a minimum global set of standards as a baseline that individual jurisdictions could build on versus a comprehensive set of standards? If there are multiple standard setters, how can standards be aligned to enhance comparability and reliability? What should be the interaction between any global standard and Commission requirements? If the Commission were to endorse or incorporate a global standard, what are the advantages and disadvantages of having mandatory compliance?**

- The obvious disadvantage to this is that climate change reporting becomes a box ticking exercise and is not put into the context of a group's other exposures, so that investors remain none the wiser as to the likelihood and impact of any climate related risks / opportunities. Done properly, reporting on this area can be put into the greater context of all the risks / opportunities that a company is facing. This can be done in a materiality matrix or heat map. Any heat map should not be determined by what investors think is important, but what the company sees as being material to its longer-term wellbeing. Investors can then challenge and question the company on its determinations. If a company asks its investors / stakeholders what is important to them, then the tendency is for everyone to put climate change at the top of the agenda. Companies may use this as their yard stick for what they need to do, rather than taking assessment of what their underlying exposures are to climate change and how these fit into the picture of other risks / opportunities that they are facing (which investors / stakeholders may not see.)
- Reporting standards should be comparable – companies should use standard measurements for their data points.
- Ideally, we would like to see as few global standards as possible.

**10. How should disclosures under any such standards be enforced or assessed? For example, what are the advantages and disadvantages of making disclosures subject**

**to audit or another form of assurance? If there is an audit or assurance process or requirement, what organization(s) should perform such tasks? What relationship should the Commission or other existing bodies have to such tasks? What assurance framework should the Commission consider requiring or permitting?**

- At this point, we do not see a need for the data points to be audited for reliability. But we do think that, going forward, this will become a necessity to ensure that all companies meet a net zero target.
- Auditing firms may see an opportunity to provide this service. There will also be others who develop this ability, as well.
- Auditing carbon related data should be a service that is paid for by companies. It should be seen in the same light as financial auditing, though at first there may not be as much credibility behind it.
- The Commission could consider requiring auditors to prove that they have advanced understanding in the area of carbon (perhaps an accreditation?) before auditing companies' reported numbers on carbon / GHG emissions and related data points.

**11. Should the Commission consider other measures to ensure the reliability of climate-related disclosures? Should the Commission, for example, consider whether management's annual report on internal control over financial reporting and related requirements should be updated to ensure sufficient analysis of controls around climate reporting? Should the Commission consider requiring a certification by the CEO, CFO, or other corporate officer relating to climate disclosures?**

- We would strongly advocate that updates on climate related disclosures be included in the 10K. This report should reflect how the group is managing its specific exposures related to climate change. Simply having data is not enough.
- We don't believe it is necessary at this point for a c-suite individual to have to be certified to produce climate disclosures. However, it may be helpful for someone on the board to "represent" climate, in the same way that some companies have employee representatives.
- We also don't think that it should be a requirement immediately for disclosures themselves to be certified by a third party but would strongly support disclosures being certified by the senior management team / board, itself.

**12. What are the advantages and disadvantages of a "comply or explain" framework for climate change that would permit registrants to either comply with, or if they do not comply, explain why they have not complied with the disclosure rules? How should this work? Should "comply or explain" apply to all climate change disclosures or just select ones, and why?**

- The disadvantages of a comply or explain framework is that companies will have an opportunity to simply say that they are not ready to disclose. We are beyond the need for comply or explain now (that would have been sufficient 10 years ago.) Now, we need for all companies to report on
  - What their exposures are related to climate change
  - How these fit into the group's overall risk / opportunity matrix (mapping the group's key issues)
  - How the group is managing its key issues, including any climate change related exposures
  - How the management of these key issues links directly to group strategy, and most of all, pay.

- We strongly support the idea that companies should be required to comply (with no option to explain if they don't comply.)

**13. How should the Commission craft rules that elicit meaningful discussion of the registrant's views on its climate-related risks and opportunities? What are the advantages and disadvantages of requiring disclosed metrics to be accompanied with a sustainability disclosure and analysis section similar to the current Management's Discussion and Analysis of Financial Condition and Results of Operations?**

- We feel that the Commission should provide a list of key data points regarding climate change / global warming that all companies need to report on. It may be appropriate, as well, to include some sector-specific data points.
- There would be tremendous advantage for the Commission to require analysis on climate change similar to the section for Management's Discussion and Analysis of Financial Condition and Results of Operation. In this section, companies can discuss the management of their climate related issues and cover similar information to TCFD, if a group has not already reported along TCFD guidelines, elsewhere.
- It would also be helpful if companies were required to outline the role they think they play at the highest level for helping the world attain net zero. This would help companies think more holistically and not just about their own operations and supply chain. It would also help them think critically about how their products and services fit into the overall puzzle and bring everything to net zero.

**14. What climate-related information is available with respect to private companies, and how should the Commission's rules address private companies' climate disclosures, such as through exempt offerings, or its oversight of certain investment advisers and funds?**

- We would expect that private companies would need to report on climate-related information just as their public counterparts do. They should not be exempt from the same expectations, simply because they are privately owned.
- We would envisage this reporting to be (as stated earlier) in the context of a group's other risks and opportunities and contain a full discussion on the specific risks and opportunities, how the group is addressing these, what's working and what isn't working (with regard to the management of each issue), how these issues are changing on a year on year basis, and how they are linked directly to a group's overall strategy and pay.
- Details on the carbon footprints of the acquisitions' that private companies make should also be reported on, as some carbon intensive assets are being sold (by public companies) to private companies. The world needs a complete tally (accounting) of all carbon emissions – having private companies report on this will help.

**15. In addition to climate-related disclosure, the staff is evaluating a range of disclosure issues under the heading of environmental, social, and governance, or ESG, matters. Should climate-related requirements be one component of a broader ESG disclosure framework? How should the Commission craft climate-related disclosure requirements that would complement a broader ESG disclosure standard? How do climate-related disclosure issues relate to the broader spectrum of ESG disclosure issues?**

- Yes, we feel that climate-related information is best as part of a broader disclosure framework. However, as time is of the essence for requiring companies to report on climate change information, the Commission should not delay any climate related reporting for the



sake of completing a broader framework for ESG. Climate change reporting can be rolled out first with a broader spectrum developed in later stages. Trying to do everything at once could handicap or slow the process down.

- Climate-related information relates to many other facets of a company, including but not limited to its: cost of capital, supply chain (human resource management and sourcing of raw materials); health and safety (and injury frequency rates); attracting and retaining talent; strategy planning; succession planning, etc.
- It is important to note that in Europe, the Sustainable Financial Disclosure Regulation (SFDR) is making it a requirement for asset managers to report on Potential Adverse Impacts (PAIs) and other indicators of the assets in which they invest for clients. It is possible that the SEC could draw from this template to require public and private companies to report on their risks, opportunities, and overall impacts, as well. Alignment between what Europe is doing and what the US will do could help streamline information and make climate-related reporting more accessible as well as beneficial to investors.